

HITCHCOCK DEVELOPMENT, INC.

AUDIT REPORT
FOR THE YEAR ENDED APRIL 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hitchcock Development, Inc.
Hitchcock, Oklahoma

I have audited the accompanying financial statements of Hitchcock Development, Inc. as of and for the year ended April 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

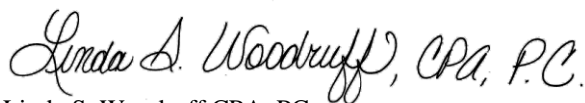
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Unmodified Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hitchcock Development, Inc. as of April 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Linda S. Woodruff CPA, PC

Oklahoma City, OK 73172
September 17, 2013

HITCHCOCK DEVELOPMENT, INC.
BALANCE SHEET
APRIL 30, 2013

Assets

Current Assets		
Operating Account	\$	6,438.65
Certificates of Deposit		14,177.09
Prepaid Expense		398.21
Accounts Receivable		8,313.23
Returned Check		20.77
Total Current Assets		<u>29,347.95</u>
Noncurrent Assets		
Water & Sewer System (Note 3)		174,128.45
Less: Depreciation Reserve		<u>(120,089.71)</u>
Total Noncurrent Assets		<u>54,038.74</u>
Total Assets		<u>83,386.69</u>

Deferred Outflows of Resources

Total Deferred Outflows of Resources		<u>-</u>
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**Total Assets & Deferred Outflows
of Resources**

\$ 83,386.69

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

HITCHCOCK DEVELOPMENT, INC.
BALANCE SHEET
APRIL 30, 2013

Liabilities

Current Liabilities		
Interest Payable	\$	75.85
Accounts Payroll Taxes		91.80
Note Payable – Current Portion		<u>8,967.87</u>
Total Current Liabilities	\$	9,135.52
Noncurrent Liabilities		
Note Payable – Berkadia (Note 4)		12,136.40
Less: Current Portion		(8,967.87)
Customer Deposits		<u>3,353.00</u>
Total Noncurrent Liabilities		<u>6,521.53</u>
Total Liabilities		<u>15,657.05</u>

Deferred Inflows of Resources

Total Deferred Inflows of Resources	-
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Fund Balances

Unrestricted	(18,219.10)	
Restricted for Memberships	31,910.00	
Invested Capital Assets (Net)	<u>54,038.74</u>	
Total Fund Balances		<u>67,729.64</u>

**Total Liabilities, Deferred Inflows of
Resources, & Fund Balances**

\$ 83,386.69

HITCHCOCK DEVELOPMENT, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
APRIL 30, 2013

Revenues

Water, Sewer & Trash	\$ 41,732.43	
Total Revenue		\$ 41,732.43

Expenses

Trash Fees	11,942.35	
Repairs/Maintenance	11,716.80	
Salaries	5,400.00	
Professional Fees	3,182.14	
Utilities	2,737.64	
Telephone	1,960.96	
Insurance	1,134.45	
Office Expense	877.13	
Payroll Taxes	413.10	
Lab Testing	201.41	
Rental	100.00	
Bank Charges	18.00	
Total Expenses		<u>39,683.98</u>

Operating Income (Loss) 2,048.45

Other Income (Expense)

Interest Income	120.46	
Interest Expense	(2,779.50)	
Depreciation	(3,482.57)	
Total Other income (Expense)		<u>(6,141.61)</u>

Change in Fund Balance (4,093.16)

Fund Balance at Beginning of Year 71,822.80

Fund Balance at End of Year **\$ 67,729.64**

HITCHCOCK DEVELOPMENT, INC.
STATEMENT OF CASH FLOW
APRIL 30, 2013

Cash Flow from Operating Activities	
Cash Payments for Services	\$ 50,393.32
Cash Payments to Suppliers for Goods and Contractors and Other Services	(45,946.05)
Net Cash Provided by Operating Activities	<u>4,447.27</u>
Cash flows from capital and related financing activities	
Payment on Long Term Note	(6,706.58)
Customer Deposits Received	255.00
Acquisition & Construction of Capital Assets	-
Net Cash Used in Capital and Financial Activities	<u>(6,451.58)</u>
Cash flows from investing activities	
Interest Income	<u>120.46</u>
Net Cash Provided by Investing Activities	<u>120.46</u>
Net Increase (Decrease) in Cash	(1,883.85)
Cash and Cash Equivalents at Beginning of Year	<u>22,499.58</u>
Cash and Equivalents at End of Year	<u><u>20,615.73</u></u>
Reconciliation of Operation Income to Net Cash provided by Operating Activities	
Operating Income (Loss)	(4,213.62)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	3,482.57
Changes in Assets & Liabilities	
(Increase) Decrease in Account Receivable	3,233.84
(Increase) Decrease in Prepaid Expenses	1,991.04
(Increase) Decrease in Interest Receivable	137.13
(Increase) Decrease in Returned Checks	(20.77)
Increase (Decrease) in Payroll Taxes Payable	(121.00)
Increase (Decrease) in Interest Payable	(41.92)
Total Adjustments	<u>8,660.89</u>
Net Cash Provided by Operating Activities	<u><u>\$ 4,447.27</u></u>

SEE INDEPENDENT AUDITOR'S REPORT
THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

HITCHCOCK DEVELOPMENT, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Hitchcock Development, Inc. (the District) was created as a result of the incorporation on May 16, 1969, for the purpose of providing waterworks and distribution system, sewage disposal system and trash services to the members it serves. Membership in the water district consists of delivering water to users who have paid the required membership and connection fees.

The Board of Directors consists of five members serving five-year terms. The vacant Board seats are elected at the annual meeting in May.

The government's significant accounting policies are described below.

Hitchcock Development, Inc. is an independent, self-contained, reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the balance sheet. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

FUND ACCOUNTING

The operations of the District constitute an enterprise fund, a proprietary fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is being financed or recovered primarily through user charges. The District's fund is accounted for on the flow of economic resources measurement focus and uses the accrual method of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPALS – CONTINUED

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents and Investments

1. Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, investments, and accounts receivable. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 2 – INCOME TAX

As a special district of a state government, the district is exempt from State and Federal income taxes.

NOTE 3 – PROPERTY AND EQUIPMENT

The District owns various equipment that is rented to individuals on an as needed basis. Additions to equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The District maintains a \$500 capitalization threshold.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water System 50 years

Capital asset activity for the year is as follows:

	Balance 4/30/2012	Addition	Disposals	Balance 4/30/2013
Depreciable Assets				
Water System	\$ 174,128.45	\$ -	\$ -	\$ 174,128.45
Accumulated				
Water System	116,607.14	3,482.57	-	120,089.71
Net Depreciable Assets	\$ 57,521.31	\$ (3,482.57)	\$ -	\$ 54,038.74

NOTE 4 – MORTGAGE PAYABLE

The District financed the water system through GMAC note dated October 26, 1983. Currently, the District was making payments to Capmark as assigned by GMAC Commercial Mortgage until January 1, 2013, when Berkadia assumed the mortgage under the same terms. The original note is in the amount of \$109,000 at 9.125% interest payable over forty years with monthly payments of \$794.

The amortization of the note is as follows:

Year Ending April 30,	Principal	Interest	Total
2014	8,967.87	560.13	1,213.27
2015	1,213.27	12.49	-
Total	<u>\$ 10,181.14</u>	<u>\$ 572.62</u>	<u>\$ 1,213.27</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Hitchcock Development, Inc.
Board of Directors
Hitchcock, OK 73744

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements as of and for the year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise Hitchcock Development, Inc.'s basic financial statements and have issued my report omitting the *Management's Discussion and Analysis* thereon dated September 17, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Hitchcock Development, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hitchcock Development, Inc.'s internal control. Accordingly, I do not express an opinion on the effectiveness of Hitchcock Development, Inc.'s internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. 2013-01; 2013-02; 2013-03; 2013-04

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompany schedule of findings to be a significant deficiency. 2013-05

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hitchcock Development, Inc.'s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hitchcock Development Inc.'s Response to Findings

Hitchcock Development, Inc.'s response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Hitchcock Development, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Linda S. Woodruff, CPA, P.C." The signature is written in a cursive style.

Linda S. Woodruff CPA, PC

Oklahoma City, OK 73172
September 17, 2013

HITCHCOCK DEVELOPMENT, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED APRIL 30, 2013

2013-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties. This finding was also noted in the prior year.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the District.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the District strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: Hitchcock Development concurs with the recommendation although, the cost to correct this might exceed the benefit.

2013-02. Internal Control – Financial Statements

Condition: As part of the audit, management requested me, as auditor, to prepare financial statements, including the related notes to financial statements to give confidence that those financial statements and related disclosures are appropriate. Although management reviewed, approved, and accepted responsibility for those financial statements, including disclosures, prior to their issuance, the auditor cannot be considered part of the internal control over the preparation of the financial statements. Because the District personnel do not possess sufficient knowledge or training related to the preparation of financial statements and related disclosures in compliance with professional standards, the District does not have the necessary controls in place to insure that the financial statements contain appropriate financial information and disclosures.

Criteria: Internal controls should be in place so the District could prepare the financial statements, including the related note disclosures.

Effect: The absence of controls over the preparation of financial statements is considered a significant deficiency because more than a remote likelihood exists that a mistreatment of the financial statements could occur and not be prevented or detected by the organization's internal control.

Recommendations: I recommend that the District strive to understand the presentation and disclosure requirements of the financial statements.

Response: The District will strive to prepare a more complete set of financial statements.

HITCHCOCK DEVELOPMENT, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED APRIL 30, 2013

2013-03. Internal Control – Material Adjusting Journal Entries

Condition: Management is responsible for adjusting the financial statements to correct material misstatements. As part of the audit, I proposed material adjusting journal entries to management that I believe are necessary to give confidence that those financial statements are appropriate for conformity with the accrual basis of accounting. Although management reviewed, approved and accepted responsibility for those material adjusting journal entries and agreed to post them to the general ledger, the auditor cannot be considered part of the District's control over the preparation of these material adjusting journal entries. Based on the fact that your internal financial statements do not reflect all material adjusting journal entries, the organization does not have the necessary controls in place to detect, prevent or correct material misstatements in the financial statements.

Criteria: Internal controls should be in place so the District could prepare and record material adjusting journal entries in the financial statements on a timely basis prior to the audit.

Effect: The absence of controls over the preparation of material adjusting journal entries is considered a significant deficiency because more than a remote likelihood exists that a misstatement of the financial statements could occur and not be prevented or detected by the organization's internal control.

Recommendations: I recommend that the District strive to prepare and post material adjusting journal entries to the financial statements rather than relying on the auditor to propose such entries.

Response: The District will strive to prepare a more complete set of financial statements.

HITCHCOCK DEVELOPMENT, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED APRIL 30, 2013

2013-04. Internal Control – Bank Reconciliations

Condition: Bank statements are not being reconciled to the general ledger on a routine basis.

Criteria: Internal controls should be in place to ensure that cash is correctly stated in the general ledger.

Effect: Cash is a highly liquid asset which has a high risk for theft, misappropriation, or embezzlement. Also, misstatement of financial statements due to over or under statement of this asset may occur.

Recommendation: Bank statements and the general ledger reconciliation should be formally prepared when the monthly statement is received from the bank. Forms provided with the bank statement may be utilized to fulfill this recommendation.

Response: Hitchcock Development concurs with this recommendation.

2013-05. Internal Control

Condition: Reconciliation of the billing register to the general ledger is not being prepared on a monthly basis.

Criteria: Revenue recorded on the general ledger does not match the totals showing on the billing register.

Effect: Financial statements may be misstated due to the understatement or overstatement of revenue from utility billings.

Recommendation: Prepare a spreadsheet showing amount billed per month then compare to amount recorded on the general ledger. The difference should be equal to the total shown on the accounts receivable report.

Response: Management concurs with the recommendation. Hitchcock Development will prepare and review a spreadsheet when statements are prepared each month.